

# UPPER MOHAWK VALLEY REGIONAL WATER BOARD

## INVESTMENT GUIDELINES

### A. Objectives of Investment Guidelines

The purpose of these Investment Guidelines is to establish guidelines that will be used by the Upper Mohawk Valley Regional Water Board (the "Board") in the purchase of investments. These guidelines are intended to:

1. Establish a system whereby current funds on hand in excess of immediate needs are invested to produce maximum earnings on these funds.
2. Assure that the investments are adequately safeguarded and will minimize any risk to the Board.
3. Assure that the Board is receiving a competitive rate of return on its investments.
4. Assure that adequate accounts and records are maintained that accurately reflect all investment transactions.
5. Comply with applicable restrictions imposed by law, including but not limited to Title 10 of Article 5 of the Public Authorities Law, or by trust indentures or similar

instruments governing the Board's bonds, notes or other obligations.

**B. Types of Permitted Investments**

1. Moneys held under a trust indenture or similar instrument governing an issue of the Board's bonds, notes or other obligations shall be invested only in the permitted investments specified therein and only in conformity with the terms and provisions of such trust indenture or instrument, and otherwise as specifically provided herein, it being understood that in the event of conflict the terms and provisions hereof will prevail if they will more fully protect the Board's interests in the investments. Attached hereto as Schedule A is a list of each such trust indenture or instrument in effect as of the date indicated on Schedule A.

2. Moneys of the Board not held under a trust indenture or similar instrument governing an issue of the Board's bonds, notes or other obligations:

- (i) shall be paid to the Treasure of the Board and shall be deposited forthwith in interest bearing accounts in a bank or banks in the State of New York (the "State") designated by the Board;

- (ii) shall be paid out of any such account on check of the Treasurer upon requisition by the Board or of such other person or persons as the Board may authorize to make such requisition; and
- (iii) shall be secured when on deposit in any such account by obligations of the United States or the State of a market value equal at all times to the amount on deposit.

Any such moneys of the Board not required for immediate use or disbursement may, at the discretion of the Board, be invested in those obligations specified pursuant to the provisions of section ninety-eight-a of the State Finance Law and identified in Schedule B hereto.

**C. Special Considerations and Requirements**

Notwithstanding the terms of Section B, above, the following special considerations and requirements shall apply to any investments authorized therein ("Permitted Investments").

1. Collateral. The Board's financial interests in Permitted Investments shall be secured by collateral under

certain circumstances. Collateral must be posted with respect to: (a) any Permitted Investment that requires collateral by the terms of the authority referred to in Section B that governs the acquisition of the Permitted Investment by the Board; and (b) any other Permitted Investment selected by the Board if required pursuant to a resolution of the Board, whether or not the Permitted Investment is otherwise required to be secured by collateral. It is anticipated that the Board will so resolve when the Permitted Investment in question is such that Authority staff, with or without the advice of financial advisors, deems it reasonably prudent to have the Permitted Investment collateralized. The collateral shall be that which is specified for the Permitted Investment by the authorities referred to above in Section B or by the Board in the resolution of the Board described in the immediately preceding sentence. In any event, any collateral for a Permitted Investment acquired by or on behalf of the Board shall be:

(a) held by the Board (or the trustee under a bond resolution or indenture governing Authority obligations) or a third party agent (who shall not be an agent for the obligor of the Permitted Investment) for the benefit of the Board (or said trustee) under written agreement, or registered in the name of the Board (or said trustee) or a third party agent for the benefit of the Board (or said trustee) under written

agreement for the express purpose of granting to and perfecting in the Board (or said trustee) a first security interest in the collateral under applicable law;

(b) marked to market no less frequently than monthly; and

(c) maintained at a market value that is at least equal to 100 percent of the principal amount of the Permitted Investment plus accrued interest (or amortized discount) thereon to the date of calculation.

The Board, by resolution of the Board, or the Chairman, Treasurer Or Executive Director of the Board, in his or her discretion, may require that any Permitted Investment be accompanied by an opinion of counsel to the issuer of the Permitted Investment or counsel to the Board to the effect that the Permitted Investment is an enforceable obligation of its issuer and that the Board enjoys a first perfected security interest in any collateral pledged therefore, and covering such other items as it, he or she may specify.

2. Written Contracts. The Board (or the trustee under a bond resolution or trust indenture governing Authority

obligations) shall enter into written contracts pursuant to which Permitted Investments are acquired, unless the Board shall by resolution determine that a written contract is not practical or that there is not a regular business practice of written contracts with respect to a specific investment or transaction, in which case the Board shall adopt procedures covering such investment or transaction. The Board has made such a determination with respect to the Permitted Investments specified in Schedule C hereto and has adopted the procedures specified in Schedule D hereto. Such contracts and procedures shall include provisions:

- (i) deemed necessary and sufficient to secure in a satisfactory manner the Board's financial interest in each Permitted Investment;
- (ii) covering the use, type and amount of collateral or insurance for each Permitted Investment;
- (iii) establishing a method for valuation of collateral, and procedures for monitoring the valuation of such collateral on a regular basis;

(iv) for the monitoring, control, deposit and retention of investments and collateral which shall include, in the case of a repurchase agreement, a requirement that the obligations purchased by physically delivered for retention to the Board (or said trustee) or its agent (which shall not be an agent of the party with whom the Board (or said trustee) entered into said repurchase agreement) unless such obligations are issued in book-entry form, in which case the Board (or said trustee) shall take such other action as may be necessary to obtain title to or a perfected security interest in such obligations.

3. Repurchase Agreements. If the Board invests in or acquires a repurchase agreement, the Board shall seek to have the agreement structured and executed in a way that is intended to cause the agreement to be characterized as a sale of securities to the Board. All repurchase agreements which the Board may invest in or acquire shall be in writing and signed by the parties. Notwithstanding any other characterization of a repurchase agreement which the Board may invest in or acquire, however, any such repurchase agreement shall also be viewed in the alternative by the Board as a secured loan from the Board to

the provider of the repurchase agreement which must be collateralized, at a minimum, in the manner set forth immediately above under Section C.1.

**D. Authorization of Investments**

Subject to the terms and provisions of any indenture or similar instrument governing the terms and provisions of an issue of the Board's bonds, notes or other obligations, and the terms and provisions of these investment guidelines, the Chairman, Treasurer or Executive Director of the Board or his/her designee is authorized to purchase or liquidate Permitted Investments on behalf of the Board.

**E. Standards for Selecting Investments**

The Board may encourage the purchase and sale of Permitted Investments through a competitive or negotiated process involving telephone solicitation of bids with three or more banks or investment firms. The Board shall, in any event, comply with all applicable state and federal laws concerning Permitted Investments, including federal requirements that must be satisfied to preserve the federal income tax exemption intended to be afforded to the interest on any of the Board's bonds, notes or other obligations. Subject to the foregoing, bidding shall

take place at the discretion of the Chairman, Treasurer or Executive Director or his/her designee.

It is the Board's intention to achieve a diversification of investments, including diversification with respect to types of investments and firms with which the Board transacts business. Toward this end, the Board shall review periodically (and in any event no less frequently than annually) all investments made by or on behalf of the Board. If, at the time of such a periodic review, less than one-half of the value of all investments held in an account of the Board is derived from U.S. government obligations, the investments held in such account shall be diversified as soon thereafter as practicable in the judgment of the Chairman, Treasurer or Executive Director of the Board such that the Board's risk exposure is spread among at least two obligors other than the United States. For this purpose; (i) an account shall be any discrete fund or account of the Board, whether maintained by or on behalf of the Board pursuant to an indenture or resolution governing the Board's obligations or maintained by the Board for general purposes or any other special purposes; (ii) the value of an investment shall be its historical cost and accrued but unpaid interest, plus or minus any amortized discount or premium; and (iii) U.S. government obligations shall include (a) obligations that are direct obligations of, or are guaranteed by, the United States or an agency or instrumentality thereof with the effect that the same are secured by the full

faith and credit of the United States, (b) obligations that are fully collateralized by obligations described in clause (a), and (c) obligations or deposits that are fully insured, directly or indirectly, by the United States.

The Board shall also periodically review the firms with which it does business and solicit bids or requests for proposals, and engage in other similar methods of engaging the most qualified providers of goods and services, as and when the Board shall deem necessary or appropriate.

**F. Standards for Financial Institutions**

It is the Board's intention that there be imposed standards for the qualification of investment bankers, brokers, agents, dealers and other investment advisers and agents who transact business with the Board ("Financial Institutions"), such as criteria covering quality, reliability, experience, capitalization, size and any other factors that, in the judgment of the Board, make a firm qualified to transact business with the Board. Toward this end, the Board, unless it shall determine that special circumstances prevail and dictate a different course of action, shall seek competitive bids from at least two parties each time the Board intends to retain a Financial Institution, which bids shall be in response to a request for proposals from the Board that shall solicit information regarding financial

standing, experience, staffing and parties from whom recommendations may be obtained.

**G. Audit of Investments**

An independent audit of the Board's investments shall be conducted annually in conformance with Section 1226(w) of the Public Authorities Law. This audit will be performed in connection with the annual audit of the Board's financial statements. This audit will be performed by an independent Certified Public Accountant and will cover investments for the fiscal year and is being audited. The results of the audit will be available to the Board at the time of the annual review and approval of these investment guidelines by the Board. This investment report will be prepared in conformance with Generally Accepted Auditing Standards and will be included in the Board's year-end financial statements.

**H. Reporting**

The Chairman, Treasurer or Executive Director of his/her designee shall periodically review these Investment Guidelines and recommend changes to the Board. Such recommended changes could result from changes in investment opportunities, changes in economic conditions or changes in the Investment Guidelines for Public Authorities as issued by the New York State Comptroller.

The Chairman, Treasurer, Executive Director or his/her designee will prepare quarterly investment reports outlining investments purchased and investments liquidated, the inventory of existing investments and the selection of any investment bankers, brokers, agents, dealers or auditors.

The Board shall annually prepare and approve an investment report which shall include the Investment Guidelines, amendments to such Investment Guidelines since the last investment report, and explanation of the Investment Guidelines and amendments, the results of the annual independent audit, the investment income record to the Board and a list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and adviser rendering investment associated services to the Board since the last investment report. Such investment report may be a part of any other annual report that the Board is required to make. The investment report shall be submitted annually to the State Department of Audit and Control. The Board shall make available to the public copies of its investment report upon request therefore.

SCHEDULE A

1. Trust Indenture, dated as of \_\_\_\_\_, by and between the Board and The United States Trust Company of New York, as trustee.

SCHEDULE B

Investments described in Section 98-a of the State Finance  
Law that are Permitted Investments for the Board:

All SUCH INVESTMENTS

SCHEDULE C

Permitted Investments for which written contracts will not  
be required:

CERTIFICATES OF DEPOSIT

SCHEDULE D

Procedures covering the acquisition of Permitted Investments identified on Schedule C in the absence of written contracts.

The Board will take possession of the certificate of deposit. In each case the certificate of deposit will be payable to the Upper Mohawk Valley Regional Water Board (the "Board"). The certificate of deposit shall be fully insured by the Federal Deposit Insurance Company ("FDIC") or fully secured by obligations of the State of New York or obligations of local governments within New York State or obligations of local governments within New York State or obligations of the United States or obligations of federal agencies of which the principal and interest are guaranteed by the United States. Any collateral shall be either delivered to the Board or held by a third party custodial bank acting as agent of the Board. The value of the collateral will be valued by the Board or its designee on a monthly basis. The market value of the collateral will be at least equal to the principal amount of the certificate of deposit plus interest thereon.